

**Charter School Facilities Program
Proposition 51 Funding Round
Staff Summary Report – January 2018**

Applicant/Obligor:	KIPP Bay Area Schools
Project School:	KIPP Summit Academy
CDS (County – District – School) Code:	16-13090-101212
School Address/Proposed Site:	2005 Via Barrett, San Lorenzo, CA 94580
Type of Project:	Rehabilitation
Type of Apportionment:	Preliminary Apportionment
County:	Alameda
District in which Project is Located:	San Lorenzo Unified School District
Charter Authorizer:	San Lorenzo Unified School District
Total OPSC Project Cost:*	\$18,559,799
State Apportionment (50% Project Cost):	\$9,279,899
Lump Sum Contribution:	N/A
Total CSFP Financed Amount:	\$9,279,899
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$473,454
First Year of Occupancy of New Project:	2021-22

**The amount identified as total project costs represents an estimate provided by the Office of Public School Construction for purposes of Preliminary-Apportionment financial soundness review. Final project costs will be provided at the time of Final Apportionment.*

Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that KIPP Bay Area Schools (“CMO” or “KBAS”) on behalf of Summit (“School” or “Summit”) is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This recommendation, as it relates to Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon KIPP Bay Area Schools, on behalf of KIPP Summit Academy, electing to have its CSFP payments intercepted at the state-level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction (“OPSC”) and the State Allocation Board regarding this determination.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting its financial soundness review of KIPP Bay Area Schools on behalf of KIPP Summit Academy. Detailed information is contained in the body of the report.

Criteria	Comments
Obligor Information	
Demographic Information	KBAS currently serves 5,259 students in grades K-8. Enrollment in 2018-19 is expected to be 6,128 students. ADA rates are projected to be 95%, which staff find reasonable. For 2016-17, the unduplicated pupil count of at KBAS as a percentage of ADA is 83.1%. 21.2% of the student body are English Language Learners. 77.2% qualify for Free and Reduced Price Meals.
Debt Service Coverage	KBAS's DSC is 400.8% and 702.4% for 2021-22 and 2022-23 respectively. Staff's determination includes the three additional CSFP projects mentioned in the report.
Other Financial Factors	<ul style="list-style-type: none"> KBAS's operating fund has a projected balance of \$117,864,997 as of the end of 2017-18. KBAS's expected annual total of CSFP payments only account for 1.2% and 1.1% operating revenue for KBAS for 2012-22 and 2022-23 respectively.
School Information	
Eligibility Criteria	KIPP Summit Academy has met all eligibility criteria: (1) KIPP Summit Academy began operation in 2005; (2) KIPP Summit Academy's most recent charter was approved July 1 2016 and is in place through June 2021; (3) KIPP Summit Academy is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	KIPP Summit has performed better than its local district and local schools serving the same grade span.
Demographic Information	KIPP Summit Academy currently serves 419 students in grades K-5. Enrollment in 2018-19 is expected to be 420 students. ADA rates are projected to be 95%, which staff find reasonable. For 2016-17, the unduplicated pupil count of at Summit as a percentage of ADA is 78.2%. 20.8% of the student body are English Language Learners. 74.9% qualify for Free and Reduced Price Meals.

Program Eligibility: On October 6, 2017, at CSFA staff's request, verification was received from San Lorenzo Unified School District confirming that KIPP Summit Academy (1) is in compliance with the terms of its charter agreements, and (2) in good standing with its chartering authority. KIPP Summit Academy's current charter is effective through June 2021.

Legal Status Questionnaire: Staff reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

Project Description: KIPP Summit Academy's Prop 51 rehabilitation proposal, located at 2005 Via Barrett Way, San Lorenzo, CA. Barring any future changes in funding, the project plans to accomplish the following: remodel multi-use room, remodel kitchen, HVAC

improvements, interior and exterior painting, remodel bathrooms, replace portable classrooms with permanent structures or new portables, improve security systems and campus access control, exterior aesthetic improvements, and replace and upgrade exterior windows and doors.

Obligor Organizational Information: KBAS is a non-profit, public benefit corporation with 501(c)(3) status, which currently operates eleven public charter schools in the San Francisco Bay Area. KBAS is associated with the KIPP Foundation's (KIPP) national network of schools, which has 200 schools across the nation all managed by local, regionalized non-profits. KBAS was created in October 2008 through a consolidation of seven charter schools, including five middle schools and two high schools, under its auspices: KIPP Bayview Academy; KIPP Bridge Academy; KIPP Heartwood Academy; KIPP San Francisco Bay Academy; KIPP Summit Academy; KIPP King Collegiate; and KIPP San Jose Collegiate High School. By 2008, KIPP BAS had opened 4 additional charter schools: KIPP Excelencia Community Preparatory; KIPP San Francisco College Preparatory; KIPP Heritage Academy; and KIPP Prize Preparatory Academy. Each of these schools was established under the KIPP model, and KIPP Bay Area Schools assumed all fiscal and operational oversight responsibilities. The national organization promoting the KIPP program, the KIPP Foundation, located in San Francisco, provides professional development, evaluation, and advocacy support for all KIPP schools nationwide.

The 2017-18 KIPP Bay Area Schools board consists of Chair Chuck Daggs; Jay Allen; John Philip Coughlan; Michael Cohen; Lauren Dutton; Andrea Evans; Kevin Eyres; Doris Fisher; Laura Fisher; Cheryl Frank; Abe Friedman; Andrea Higuera-Ballard; Ken Hirsch; Tom Holland; Tonia Karr; Satya Patel; Jenny Shimizu Risk; Emily Rummo; Lisa Sobrato Soncino; Grace Voorhis; Ted Williams; and Chris Young. Beth Sutkus Thompson is the Chief Executive Officer, Cory Harris is the Director of Finance, and April Chou is the Chief Growth & Operating Officer. Staff has reviewed the credentials of the key board members and staff and determined them to have the proper background and experience to govern and effectively oversee the operations of the CMO.

School Organizational Information: KIPP Summit Academy is a public charter school located within the boundaries of the San Lorenzo Unified School District and is authorized by the San Lorenzo Unified School District. KIPP Summit Academy's most recent charter was approved by the San Lorenzo Unified School District in February 2016 and is active through June 30 2021. The school is a direct-funded independent charter school and is operated by a California public benefit corporation with IRS approved 501(c)(3) status, KIPP Bay Area Schools,.

KIPP Summit Academy was established following the national KIPP model, as set forth by the KIPP Foundation. The hallmarks of the KIPP program include the following five pillars: 1) **High Expectations:** KIPP schools have clearly defined and measurable high expectations for academic achievement and conduct that make no excuses based on the students' backgrounds. Students, parents, teachers, and staff create and reinforce a culture of achievement and support through a range of formal and informal rewards and consequences for academic performance and behavior; 2) **Choice & Commitment:**

Students, their parents, and the faculty of each KIPP school choose to participate in the program. No one is assigned or forced to attend a KIPP school. Everyone must make and uphold a commitment to the school and to each other to put in the time and effort required to achieve success; 3) More Time: KIPP schools know that there are no shortcuts when it comes to success in academics and life. With an extended school day, week, and year, students have more time in the classroom to acquire the academic knowledge and skills that will prepare them for competitive high schools and colleges, as well as more opportunities to engage in diverse extracurricular experiences; 4) Power to Lead: The principals of KIPP schools are effective academic and organizational leaders who understand that great schools require great school leaders. They have control over their school budget and personnel. They are free to swiftly move dollars or make staffing changes, allowing them maximum effectiveness in helping students learn; 5) Focus on Results: KIPP schools relentlessly focus on high student performance on standardized tests and other objective measures. Just as there are no shortcuts, there are no excuses. Students are expected to achieve a level of academic performance that will enable them to succeed at the nation's best high schools and colleges.

Following the national KIPP model, all KIPP students spend “more time on task” by devoting nine hours every weekday, plus alternate Saturdays throughout the extended school year, to class work and school-based activities. In addition, summer school is in session four hours a day for three weeks. KIPP King Collegiate correlates its curriculum objectives to California standards and works to ensure that all students master all areas of the content standards.

KIPP Summit is governed by KBAS's board as listed in the section above. Salome Portugal is the current principal and Megan Roberto is the Acting School Leader for Summit. Staff has reviewed the credentials of the key board members and staff and determined them to have the proper background and experience to govern and effectively oversee the operations of the School

School Academic Performance: The following tables represent the 2014-15, 2015-16 and 2016-17 academic performance of Summit, the combined averages of Washington Manor Middle and Bohannon Middle (Local Schools), and San Lorenzo Unified (SLUSD). The results are provided through CDE's CAASPP Smarter Balanced testing data.

English Language Arts – Comparison

	Years		
	2014-15	2015-16	2016-17
Summit	81%	84%	77%
Local Schools	29%	36%	35%
SLUSD	27%	33%	27%

	All Students Performance			Student Groups w/ Below Avg. Performance		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Summit	N/A	Highest	Highest	N/A	0/4	0/4

Local Schools	N/A	Average; Average	Average; Low	N/A	0/8; 2/8	3/8; 7/8
SLUSD	N/A	Average	Low	N/A	2/10	9/11

Mathematics– Comparison

	Years		
	2014-15	2015-16	2016-17
Summit	75%	73%	65%
Local Schools	23%	26%	26%
SLUSD	21%	24%	23%

	All Students Performance			Student Groups w/ Below Avg. Performance		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Summit	N/A	Highest	High	N/A	0/4	0/4
Local Schools	N/A	Low; Average	Low; Low	N/A	6/8; 2/8	6/8; 5/8
SLUSD	N/A	Average	Low	N/A	3/10	9/11

Enrollment Trends and Projections: The tables below present enrollment information for KBAS and Lazear from 2013-14 through 2023-24. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

District-wide Student Enrollment and Average Daily Attendance

<u>KBAS</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	2,829	3,271	3,790	4,661	5,259	6,128	7,136	8,190
ADA	96.5%	96.3%	96.3%	95.3%	95.0%	95.0%	95.0%	95.0%

	2021-22	2022-23
Enrollment	9,250	10,021
ADA	95.0%	95.0%

School Student Enrollment and Average Daily Attendance

<u>Summit</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	397	397	408	409	398	399	399	399
ADA	98.0%	97.5%	98.1%	97.8%	95.0%	95.0%	95.0%	95.0%

	2021-22	2022-23
Enrollment	399	399
ADA	95.0%	95.0%

Financial Data Sources: This financial analysis is based on the consideration and review of the following for KBAS, the financial obligor and Applicant, on behalf of Summit: (1) audited financial statements for 2013-14 through 2016-17; (2) adopted budget for 2017-18; and (3) budget projections for 2018-19 through 2022-23 along with assumptions.

Assumptions: KBAS's financial projections are based upon the following assumptions: (1) occupancy of the Summit rehabilitation project in 2021-22; (2) the occupancy of the Prop 51 rehabilitation and new construction projects for Lazear in 2021-22 and 2022-23; (3) the repayment of KIPP King Collegiate's rehabilitation project beginning in 2019-20; (4) the repayment of KIPP King Heartwood's rehabilitation project beginning in 2020-21; (5) the repayment of KIPP King Prize Preparatory's rehabilitation project beginning in 2020-21; (6) CMO-wide enrollment projections as provided above under "Enrollment Trends and Projections"; (7) Projected CMO-wide ADA rates of 95%, which are consistent with historical performance; and (8) Local Control Funding Formula (LCFF) per-ADA funding rate of \$9,978 for 2017-18, as included with KBAS's adopted budget document for 2017-18.

Long Term Liabilities: As provided by the 2016-17 audited financial statements, KBAS has \$4,881,800 in payable notes as of June 30, 2017. The long term liabilities are from the following: KIPP King Collegiate has a note payable of \$3,881,800 as of June 30, 2017 with a 2% interest rate for a CSFP new construction project; the note agreement between KIPP Bay Area Schools and Charter School Growth Fund for \$1,000,000 with an interest rate of %1. Post June 30, 2017, the balance is \$9,881,181 due to the following: \$2,000,000 loan for construction at KIPP Bridge and \$3,000,000 for construction at KIPP Heritage. The table below contains the CSFP projects and loan amounts approved with the Authority's final apportionment financial soundness determination.

CSFP Project Name	CSFP loan amount (Local Match)
KIPP King Collegiate (New Construction)	\$4,141,422
KIPP King Collegiate (Rehabilitation)	\$404,174
KIPP Heartwood	\$4,403,597
KIPP Prize Preparatory	\$256,756
Total	<u>\$9,205,949</u>

Private Contributions: KBAS projects moderately high contribution revenue. KBAS's contribution revenue is more than 15% of operating revenues every year reviewed except for the 2020-21 through 2022-23. This included 2013-14 through 2016-17 in which these contribution numbers were provided in audited financial statements and these amounts are higher than the projected years on average.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff's analysis regarding KBAS's financial soundness. Where a threshold has been established based on industry standards or practice, the listing indicates whether or not the threshold was met.

Item 4(K) – CSFP Staff Summary
KIPP Bay Area Schools on behalf of KIPP Summit Academy
Page 7 of 8

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS										
	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023
OPERATIONAL & FINANCIAL										
Enrollment	2,829	3,271	3,790	4,661	5,259	6,128	7,136	8,190	9,250	10,021
Average Daily Attendance (ADA)	2,730	3,151	3,650	4,444	4,996	5,822	6,779	7,781	8,788	9,520
Average Daily Attendance (%)	96.5%	96.3%	96.3%	95.3%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
LCFF Sources/ADA	\$ 7,409	\$ 8,296	\$ 9,471	\$ 10,020	\$ 9,978	\$ 9,584	\$ 9,824	\$ 10,121	\$ 10,445	\$ 10,759
% Change		12.0%	14.2%	5.8%	-0.4%	-3.9%	2.5%	3.0%	3.2%	3.0%
Operating Revenues/ADA	\$ 15,334	\$ 16,964	\$ 17,905	\$ 16,837	\$ 17,329	\$ 14,472	\$ 14,809	\$ 14,469	\$ 14,657	\$ 14,273
% Change		10.6%	5.5%	-6.0%	2.9%	-16.5%	2.3%	-2.3%	1.3%	-2.6%
Operating Expenses plus CSFP Lease/ADA	\$ 11,014	\$ 11,254	\$ 12,036	\$ 12,817	\$ 17,058	\$ 19,990	\$ 15,139	\$ 15,303	\$ 15,422	\$ 15,040
% Change		2.2%	6.9%	6.5%	33.1%	17.2%	-24.3%	1.1%	0.8%	-2.5%
Free Cash Flow/ADA	\$ 4,319	\$ 5,710	\$ 5,869	\$ 4,020	\$ 271	\$ (5,518)	\$ (330)	\$ (833)	\$ (764)	\$ (767)
DEBT SERVICE COVERAGE										
Total Operating Revenues	\$41,860,585	\$53,454,761	\$65,351,507	\$74,823,974	\$86,577,430	\$84,250,760	\$100,396,301	\$112,579,347	\$128,801,256	\$135,873,973
Total Operating Expenses	29,881,559	35,274,462	43,741,878	56,769,022	85,034,382	116,186,733	102,424,962	118,615,311	133,980,374	141,639,208
Total Other Sources/Uses	-	-	-	-	4,884,441	4,309,122	4,413,597	(319,636)	(333,909)	8,013,303
Net Income Available for CSFP Lease Payment	11,979,026	18,180,299	21,609,629	18,054,952	6,427,489	(27,626,851)	2,384,936	(6,355,600)	(5,513,027)	2,248,068
Add Back Capital Outlay	-	-	-	-	17,862,201	38,122,139	11,219,677	10,550,000	10,550,000	7,169,372
Add Back Depreciation	-	-	-	-	839,661	1,106,135	1,116,164	1,120,245	1,124,432	1,380,945
Adjusted Net Income Available for CSFP Lease Pymt.	11,979,026	18,180,299	21,609,629	18,054,952	25,129,351	11,601,423	14,720,777	5,314,645	6,161,405	10,798,385
CSFP Lease Payments	187,921	187,921	187,921	187,921	187,921	187,921	208,542	446,309	1,537,448	1,537,448
Free Cash Flow	\$11,791,105	\$17,992,378	\$21,421,708	\$17,867,031	\$24,941,430	\$11,413,502	\$14,512,235	\$4,868,336	\$4,623,957	\$9,260,937
DSC from Adj. Net Income	6374.5%	9674.4%	11499.3%	9607.7%	13372.3%	6173.6%	7058.9%	1190.8%	400.8%	702.4%
DSC from LCFF Sources subject to CSFA Intercept	0.0%	6879.9%	9126.7%	11802.7%	14410.9%	26526.8%	26754.6%	14921.8%	5122.0%	5970.0%
CSFP Lease Payment/Oper. Revenues	0.4%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.4%	1.2%	1.1%
FUNDRAISING										
Fundraising for Operations	\$16,595,561	\$22,913,618	\$23,874,225	\$23,438,821	\$27,184,438	\$17,604,199	\$20,532,472	\$16,834,328	\$16,307,736	\$10,325,000
Fundraising/Oper. Revenues	39.6%	42.9%	36.5%	31.3%	31.4%	20.9%	20.5%	15.0%	12.7%	7.6%
DSC without Fundraising	-2456.6%	-2518.8%	-1205.1%	-2865.0%	-1093.6%	-3194.3%	-2786.8%	-2581.1%	-659.9%	30.8%
% of Fundraising Required for 100% DSC	29.0%	21.5%	10.3%	23.8%	8.3%	35.2%	29.3%	71.1%	71.6%	10.3%
LIQUIDITY										
Current Assets	\$36,270,494	\$51,556,913	\$74,740,438	\$79,386,440						
Current Liabilities	2,373,330	2,431,203	4,002,724	7,323,274						
Net Working Capital	\$33,897,164	\$49,125,710	\$70,737,714	\$72,063,166						
Net Working Capital/Oper. Expenses	113.4%	139.3%	161.7%	126.9%						
Unrestricted Cash & Cash Equivalents	\$23,616,043	\$37,391,721	\$57,473,908	\$68,509,364						
Unrest. Cash & CE/Oper. Expenses (Days)	288	387	480	440						
Unrest. Cash & CE/All Expenses (Days)	287	385	478	439						

Benchmark Summary:

- Free Cash Flow/ADA – Met: \$1,194 avg. (>\$0)
- Free Cash Flow – Met: \$13,834,678 avg. (>\$0)
- Debt Service Coverage from Adjusted Net Income – Met: 400.8% and 702.4%
- Net Working Capital as Portion of Operating Expenses – Met: 135.3% (>5%)
- Unrestricted Cash & Cash Equivalents as Portion of All Expenses –Met: 397 days (> 90 days)

Strengths, Weaknesses and Mitigants:

- + KBAS's DSC for Summit from adjusted net income is 360.2% and 631.3% for 2021-22 and 2022-23, the first two years of repayment, respectively.
- + KBAS's operating fund balance, as of June 30, 2017, was \$11,437,508.
- + KBAS's net working capital averaged 135.3% of operating expenses.
- +/- KBAS's contribution revenue is 12.7% and 7.6% for 2021-22 and 2022-23, but these projections of \$16,307,736 and \$10,325,000, respectively, are more

conservative than KBAS's historical contribution revenue which averaged \$21,705,556 from 2013-14 through 2016-17.

- + CSFP loan payments only account for 1.2 and 1.1% operating revenue for KBAS for both 2012-22 and 2022-23 respectively. KBAS will be responsible for payments on six projects in 2021-22 and 2022-23.

Staff Recommendation: Staff recommends that the California School Finance Authority ("Authority" or "CSFA") Board determine that KIPP Bay Area Schools on behalf of KIPP Summit Academy is financially sound for the purposes of Charter School Facilities Program ("Program" or "CSFP") Preliminary/Advance Apportionment. This recommendation, as it relates to Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon KIPP Bay Area Schools, on behalf of KIPP Summit Academy, electing to have its CSFP payments intercepted at the state-level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction ("OPSC") and the State Allocation Board regarding this determination.